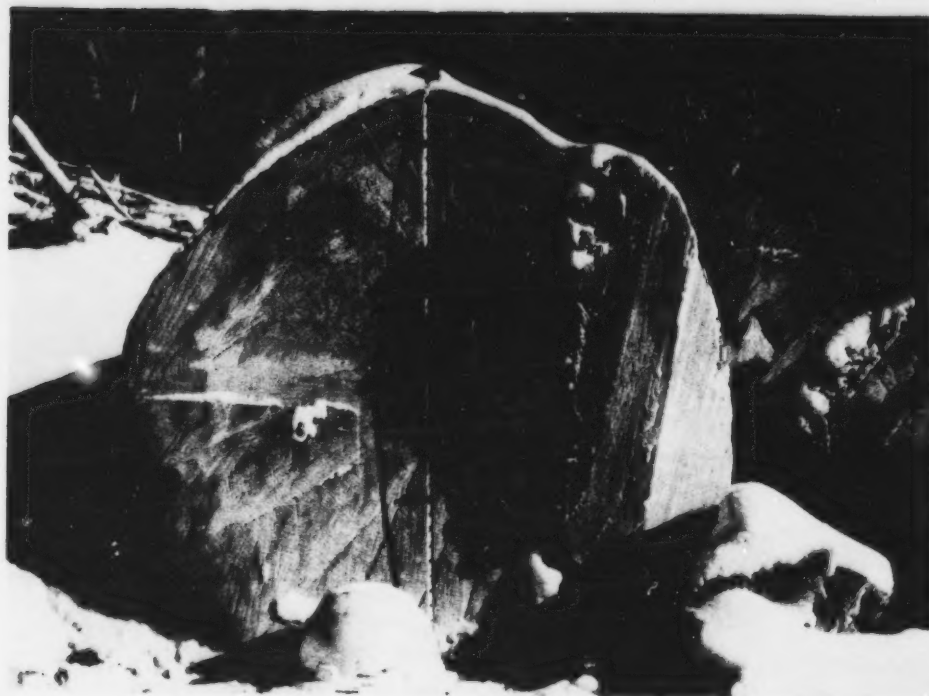

SASKATCHEWAN FOREST PRODUCTS CORPORATION 1981 ANNUAL REPORT

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37TH ANNUAL REPORT
SASKATCHEWAN FOREST PRODUCTS CORPORATION
YEAR ENDED OCTOBER 31, 1981





Letter of Transmittal

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Regina, Saskatchewan
January 29, 1982

To His Honour,
The Honourable C. Irwin McIntosh,
Lieutenant Governor of the Province of Saskatchewan.

Sir:

I have the honour to submit herewith the annual report of Saskatchewan Forest Products Corporation for the year ended October 31, 1981 including the financial statements therefor, duly certified by the Corporation's auditors and in the form approved by the Treasury Board, all in accordance with The Crown Corporations Act, 1978.

I have the honour to be, Sir,

Your obedient servant,

Don Cody,
Minister Responsible,
Saskatchewan Forest Products
Corporation

**Board of Directors**

Honourable Don Cody, Chairman — Regina

Honourable Jerry Hammersmith — Prince Albert

Derk Kok — Meadow Lake

Gary W. McKenzie — Regina

Edgar Thorson — Preeceville

John L. Walton — Regina

Secretary to the Board

Rodney E. Ulrich — Regina



Corporation Officers and Management

Norman S. Denmark	— General Manager
Donald A. Taylor	— Manager, Finance and Administration
Brian E. Firby	— Manager, Woods
William McFadzean	— Manager, Personnel and Industrial Relations
Henry A. Peters	— Manager, Marketing

Division Management

Rolland N. St. Louis	— Manager, Plywood Division, Hudson Bay
Samuel Miller	— Manager, Bodmin Sawmill Division, Big River
Archibald E. Kiteley	— Manager, Carrot River Sawmill Division, Carrot River
Paul Klotz	— Manager, Wood Preserving Division, Prince Albert
Albert Harris	— Manager, Western Overlay Industries, Yorkton (A Joint Venture)
Austin J. Clark	— Special Representative, Promotion and Sales

Retail Yard Management

Robert G. Peterson	— Manager, Prince Albert Retail Yard, Prince Albert
Michael Strijack	— Manager, Sturgis Retail Yard, Sturgis



Maryann Wostenholme — Plywood Assembly

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SASKATCHEWAN FOREST PRODUCTS CORPORATION

Report of the General Manager

Introduction

As anticipated in the 1980 Annual Report, the American and Canadian markets for wood products remained in a depressed condition during 1981. Mill closures throughout the United States and Canada were a common occurrence, particularly in the second half of the year. The Corporation was able to maintain normal operations — a tribute to the high quality of production.

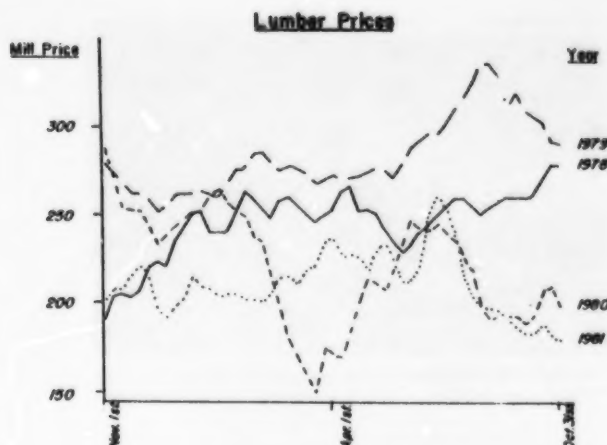
The Corporation operated two sawmills, one at Bodmin and the second at Carrot River. In addition, the Plywood Plant at Hudson Bay, the Wood Preserving Plant at Prince Albert, and the two retail outlets at Sturgis and Prince Albert were in full operation. With these plants, the Corporation continues to be one of the larger consumers of the forest resource and one of the larger employers in the industry.

The plants also supply chips to the pulp industry as a by-product and the Wood Preserving Plant supplies hog fuel to the pulpmill in Prince Albert as a source of heat fuel.

The Corporation entered into a Joint Venture with Dynamid Development Corporation of Vancouver to create Western Overlay Industries. The plant, designed to produce overlaid plywood products using plywood from Hudson Bay is being constructed at Yorkton, and production will commence in 1982, the first product being form-ply, used in the construction of forms for concrete work.

Statement of Mission

The Corporation was established by Order-in-Council 1899 of 1949 and continues under the provisions of The Crown Corporations Act and was formed for the sole purpose of fully utilizing the available forest resources of the Province of Saskatchewan to the best of its ability and to be responsible to the people of the Province of Saskatchewan.



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Marketing

As indicated, the markets suffered a deep depression during the past year. Housing starts slipped to one of the lowest levels since the Second World War. The cause was considered to be the extreme interest rates for mortgages, combined with the uncertainty of the country's economy. Lumber shipments to the U.S. again declined. Overseas Plywood shipments ceased as the market disappeared in Europe — again due to the recession. Plywood prices did not fluctuate as much as lumber prices as the product has uses other than in the housing industry. However, lumber prices overall were lower than in 1980 and, in fact, lower overall than the last three years. This situation, combined with increasing costs, resulted in financial difficulties for the industry.

Finance

The Corporation experienced a loss of \$2,156,000 for the fiscal year, leaving retained earnings at \$1,477,000. Sales of \$30,394,000 were \$8,031,000 higher than the previous year due to the salvaging operation of the Woody fire.

Community Relations

The Corporation continued to support community projects in the various plant locations. As always, Forestry Week in Hudson Bay was a success with the Corporation and other Forest Industries in the community participating.

Manufacturing

The various plants ran as scheduled, with planned shutdowns for maintenance being the only closures. The Wood Preserving Plant ran at a slightly reduced level due to the low demand for fence posts.



Rose Myslicki and David Grimes Feeding Resaw at Planer, Carrot River

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SASKATCHEWAN FOREST PRODUCTS CORPORATION

1. Bodmin Sawmill (6 miles south of Big River)

Operations at the mill were normal for the year. Capital expenses were kept to a minimum — a policy applying to all of the Corporation's plants. One forklift was replaced at the plant and work was continued on the up-grading of the mill yards. Additional fire-fighting equipment was purchased to ensure adequate protection for the plant and log storage areas.

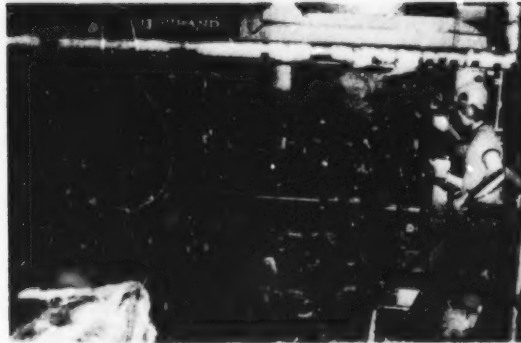
2. Carrot River Sawmill

With the occurrence of the large Woody Burn near Hudson Bay, all Forest Industries in the area responded to the directive to salvage as much wood as possible. Sawlogs were hauled to Carrot River and peeler bolts to the Plywood Plant at Hudson Bay. This resulted in increased production at Carrot River. However, this was at an increased cost to the Corporation due to the lower quality of logs, the longer haul distance and the loss of chip revenue. (The pulpmill could not accept the burnt chips due to the carbon content.) The sawmill finished sawing the burnt material in September and returned to a one-shift basis at that time. Capital purchases were limited to several small mill items and as at the Bodmin operation, the normal road construction work.

3. Hudson Bay Plywood Plant

Production was normal for the Plywood Plant, producing high-quality Spruce and Poplar plywood. It should be noted that this plant was one of the few plywood plants in Canada that did not close down due to lack of orders — an indication of the high quality of the product being manufactured.

Capital expenses included a Chip Hopper to facilitate storage and loading of chips, a storage shed to protect production while in storage, a maintenance shop extension, and a Waste Burner. The Waste Burner utilizes waste, which was formerly destroyed, producing heat which replaces natural gas. The unit produces approximately 30,000,000 B.T.U.'s per hour — about one quarter of the plant's requirements.



Dennis Chasse — Feeding Peeler Bolts into Lathe at Plywood Plant, Hudson Bay



SASKATCHEWAN FOREST PRODUCTS CORPORATION

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4. Wood Preserving Plant — Prince Albert

Production at the plant was lower than in 1980. The market for posts fell, following the cattle price problem in Western Canada. In addition, the demand for Preserved Wood Foundations fell as the housing industry moved into a recession. Accordingly, capital expenses were kept as low as possible and were restricted to the purchase of new retort trams, a refuse conveyor, a small winch for the retorts and a post pointer for the No. 2 Post Peeler unit.

Retail Yards

Sales at the retail yards followed the pattern set in 1980 and reflected the recession in house-building.

Expenditures were restricted to the construction of a small garage at the Prince Albert yard to house the front-end loader. 1981 will be remembered as a difficult year for retail yards in Canada.

Expectations for 1982

The outlook for 1982 does not appear to be too optimistic. Industry forecasters are trying to identify the course of interest rates which in turn will determine housing starts. There is some hope of a slight recovery by mid-summer, but this is expected to recede by year end. A total recovery is not expected until 1983 for the Forest Industry.

Norman S. Denmark,
General Manager,
Saskatchewan Forest Products Corporation.

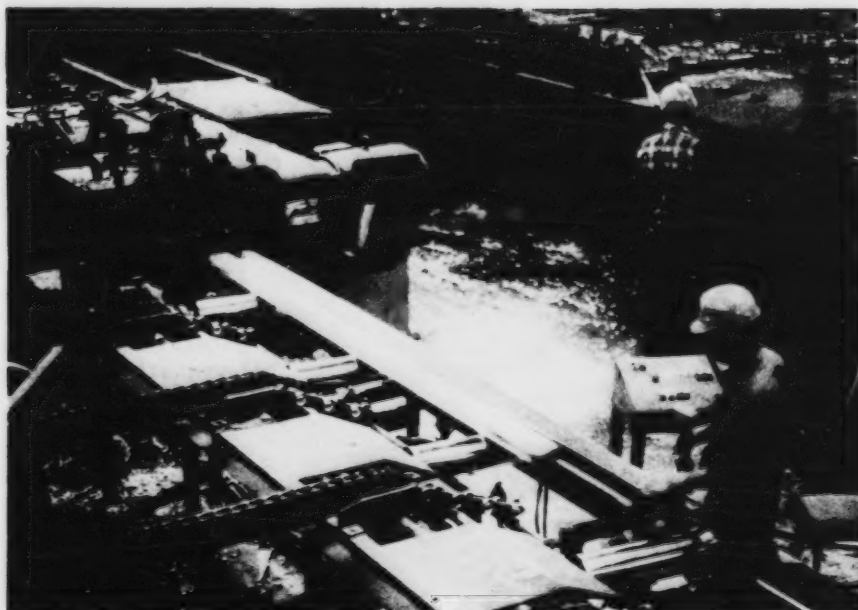
January 19, 1982



Simone Wilson — Pulling 2x10 at Planer, Bodmin



Rodney Ens — Chipper Canter Operator at Controls, Bodmin



Henry Wiens and Cliff Grimes — Feeding Chipper Edger at Carrot River

AUDITORS' REPORT

To the Members of the Legislative
Assembly of the Province of Saskatchewan

We have examined the statement of financial position of Saskatchewan Forest Products Corporation as at October 31, 1981 and the statements of operations and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the corporation as at October 31, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Saskatoon, Saskatchewan
December 22, 1981

Price Waterhouse

Price Waterhouse
Chartered Accountants



STATEMENT OF FINANCIAL POSITION

		October 31	
	Note	1981	1980
	Reference	(In Thousands)	
ASSETS			
Current assets:			
Cash on deposit		\$ —	\$ 1,000
Accounts receivable		3,079	3,769
Inventories	1	9,696	9,291
Prepaid expenses		693	646
		<u>13,468</u>	<u>14,706</u>
Investments	1 & 3	522	—
Property, plant and equipment	1 & 4	15,453	14,903
		<u>\$29,443</u>	<u>\$29,609</u>
LIABILITIES AND PROVINCE'S EQUITY			
Current liabilities:			
Bank indebtedness		\$ 1,406	\$ 1,046
Accounts payable and accrued		2,614	3,400
Loan due to Crown Investments Corporation of Saskatchewan	5	2,500	—
		<u>6,520</u>	<u>4,446</u>
Long-term note, less current portion	6	1,334	1,418
Province of Saskatchewan's equity:			
Equity advances from Crown Investments Corporation of Saskatchewan	7	20,112	20,112
Retained earnings		1,477	3,633
		<u>21,589</u>	<u>23,745</u>
		<u>\$29,443</u>	<u>\$29,609</u>

(See accompanying notes)



STATEMENT OF OPERATIONS AND RETAINED EARNINGS

		Year ended October 31	
	Note Reference	1981	1980
		(In Thousands)	
Revenue:			
Sales of forest products		\$30,394	\$22,363
Interest and other		361	375
		<u>30,755</u>	<u>22,738</u>
Expenses:			
Operating costs, other than those listed below		30,327	23,290
Selling, general and administrative		1,517	1,135
Depreciation and amortization	1	1,067	918
		<u>32,911</u>	<u>25,343</u>
Loss for the year		2,156	2,605
Retained earnings, beginning of year		3,633	6,238
Retained earnings, end of year		<u>\$ 1,477</u>	<u>\$ 3,633</u>
(See accompanying notes)			



STATEMENT OF CHANGES IN FINANCIAL POSITION

		Year ended October 31	
	Note Reference	1981	1980
		(In Thousands)	
Working capital applied to:			
Loss for the year		\$ 2,156	\$ 2,605
Depreciation and amortization	1	1,067	918
Total to operations		1,089	1,687
Purchase of property, plant and equipment, net	1 & 4	1,617	2,381
Investment in joint venture	1 & 3	522	—
Repayment of long-term note	6	84	83
Decrease in working capital		3,312	4,151
Working capital, beginning of year		10,260	14,411
Working capital, end of year		\$ 6,948	\$10,260
(See accompanying notes)			

NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 1981

1. Summary of accounting policies:

The following summary of significant accounting policies contains a description of the accounting methods and practices that have an important impact on the corporation's financial statements.

Inventories —

Inventories of logs and mill supplies are valued at the lower of cost or replacement cost. Inventories of lumber, plywood and treated products are valued at the lower of average cost and net realizable value.

Investments —

The corporation follows the equity method in accounting for its investment in a joint venture. The corporation's investment in co-operatives is recorded at cost with dividends being reflected in earnings when received.

Property, plant and equipment —

The costs of maintenance, repairs and minor renewals or replacements are charged to operations as they arise. The cost of major replacements, extensions and improvements are capitalized in the property, plant and equipment accounts. Government grants received in connection with the construction or expansion of production facilities are credited to the cost of such assets. On retirement or disposition of property, plant and equipment, the costs thereof and the related accumulated depreciation are eliminated from the accounts and any gains or losses are reflected in the statement of operations.

Property, plant and equipment are depreciated over their estimated useful lives primarily on the diminishing-balance basis at the following rates:

Buildings	5-10%
Machinery and equipment	6.7 - 10%
Vehicles	15%
Site improvements	4%
Office equipment	10%

2. Status of Saskatchewan Forest Products Corporation:

The corporation was established by Order-in-Council 1899 of 1949 and continues under the provisions of The Crown Corporations Act. These financial statements will be consolidated in the accounts of the Crown Investments Corporation of Saskatchewan.

3. Investments:

Investments in and advances to joint venture	\$518,065
Investment in co-operatives	4,379
	<u>\$522,444</u>

The corporation has a 51% interest in Western Overlay Industries, an unincorporated joint venture.



4. Property, plant and equipment:

	October 31	
	1981	1980
	(In Thousands)	
Land	\$ 431	\$ 411
Building and site improvements	5,827	5,616
Roads and spur tracks	2,286	1,753
Machinery and equipment	10,576	9,792
	19,120	17,572
Less: Accumulated depreciation	3,667	2,669
	<u>\$15,453</u>	<u>\$14,903</u>

5. Loan due:

The loan due to the Crown Investments Corporation of Saskatchewan is a demand loan bearing a prime related floating interest rate.

6. Long-term note:

The corporation is indebted to the Crown Investments Corporation of Saskatchewan as represented by a 10% promissory note for \$1,668,000 repayable in 20 equal annual instalments of \$83,400 from November 1, 1977.

As interest is payable only in years that the corporation records net earnings, no interest was paid in 1981 or 1980.

7. The Province of Saskatchewan's equity:

The Province of Saskatchewan's equity in the corporation is made up of equity advances by the Crown Investments Corporation of Saskatchewan to the corporation since its inception, less amounts repaid or forgiven. These advances are repayable at the discretion of the Crown Investments Corporation of Saskatchewan and do not bear interest. Retained earnings represent accumulative profits and losses of the corporation since the date of the reorganization on November 1, 1977.

8. Related party transactions:

Included in these financial statements are income and expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan Crown controlled departments, agencies and corporations with which the corporation is related.

Account balances resulting from these transactions are included in the statement of financial position and are settled on normal trade terms.

Other amounts due to related parties and the terms of settlement are described separately in the financial statements and the notes thereto.

9. Remuneration:

The corporation's six directors received remuneration of \$1,700 (1980 — \$2,100) during the fiscal year. The six senior officers received in aggregate \$271,362 in salaries for 1981 (1980 — \$225,097). As of April 30, 1981 the number of senior officers was reduced from six to five.

10. Contingencies:

The corporation, being the defendant to several unresolved statements of claim, has provided for them in its accounts in accordance with advice received from its legal counsel. Any difference which may arise, between amounts provided and amounts experienced, will be accounted for in the period in which the claims are resolved.

